

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Holyoke
Contributory Retirement System
For the Three Year Period
January 1, 1997 - December 31, 1999
PERAC 99: 07-044-18**

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December 10, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Holyoke** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1997** to December 31, **1999**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Holyoke Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

1. **RECONCILE CASH ACCOUNTS.** Based on inspection and inquiry, it was determined that the Holyoke Retirement System does not review the monthly reconciliation performed by the Holyoke Treasurer's Office.

Recommendation. The Holyoke Retirement System must establish a monthly procedure to review and approve bank reconciliations. In addition, bank reconciliations and monthly financial reporting must be referenced in the Board Minutes and approved by the Board. It is also recommended that the retirement payroll account maintained by the Holyoke Treasurer's Office be included in the Annual Statement, even if it is a zero balance account.

Board Response:

A monthly procedure has been established to review and approve bank reconciliations.

2. **OUTSTANDING CHECKS.** Based on inspection and inquiry, it was determined that the Holyoke Treasurers Office's reconciliation of retirement payroll has outstanding checks dating back to 1994. The Holyoke Treasurer's Office has not reconciled its payroll cash account in a timely manner.

Recommendation. Outstanding checks older than ninety (90) days should be reversed and charged against the Pension Reserve Fund. Retirement system payroll cash accounts should be reconciled by the Treasurer's Office in a timely manner.

Board Response:

In conjunction with reconciling bank statements, a monthly procedure has been established to investigate all outstanding checks and to reverse those older than 90 days.

3. **WARRANT NUMBERS AND SIGNATURES.** A review of warrants showed that warrant numbers are not assigned to monthly warrants and, on average, only two or three Board members out of five Board members sign warrants for any given month (for example, two members signed on February 28, 1997: only one member signed the March 24, 1998 warrant and one member rarely signs warrants.)

Recommendation. Numerically sequenced warrant numbers must be assigned to monthly warrants and all five Board members must sign warrants.

Board Response:

Warrants are now numbered and signed by all Board members.

Holyoke Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D.)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

4. **CONTRIBUTION RATES.** Based on inspection and inquiry, the PERAC auditor determined that Holyoke Housing, Gas & Electric, Water, and School Departments lack a uniform reporting methodology for membership contributions. Some only identify members by name and contribution amount. As a result of the reporting system in place, verification of the contribution amount is impossible by the retirement system.

Recommendation. Reporting of member contributions should be made on a prescribed form for all city departments reporting member contributions. The system should be consistent with M.G.L. c. 32, § 22 (h) and include the following member information: 1) name; 2) Social Security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; 6) membership date; and 7) any other member information deemed appropriate.

Board Response:

Through correspondence and meetings with Payroll Department Heads, this issue is being addressed. Gas & Electric reporting is in compliance. The Water Department and Housing Authority have made a concerted effort to comply. Unfortunately, these units are limited by the constraints of their payroll programs. However, the Geriatric Authority has not complied.

5. **AFFIDAVITS.** A review of affidavits to determine if they are sent annually to all retirees revealed that affidavits were not sent out since 1998. Retiree status was verified each year by utilizing a private Social Security verification firm.

Recommendation. Per 840 CMR 15.01, retirees or beneficiaries receiving a pension, retirement allowance, or survivor's allowance must annually file with the Retirement System a signed verification form.

Board Response:

Retirees and Survivors are now filing a signed affidavit form with the Retirement Board. Additionally, a computerized verification with Pension Benefit Information is being conducted.

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Holyoke Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 1999**

ASSETS	FOR THE YEAR ENDING DECEMBER 31,		
	1999	1998	1997
Cash	\$1,850,825	\$8,304,098	\$1,491,977
Short Term Investments			
Fixed Income Securities (at book value)	47,303,262	45,478,149	42,767,211
Equities	31,985,029	31,154,659	27,040,420
Pooled Domestic Equity Funds	37,254,599	26,925,708	17,449,300
Pooled International Equity Funds	4,199,915	3,349,706	7,281,360
Pooled Domestic Fixed Income Funds	7,362,335	0	0
Pooled Real Estate Funds	3,484,837	3,299,210	3,340,238
Interest Due and Accrued	753,854	737,030	741,559
Accounts Receivable	1,206,543	4,546,475	3,643,140
Accounts Payable	(2,496)	(3,156)	(139,175)
TOTAL	<u>\$135,398,703</u>	<u>\$123,791,878</u>	<u>\$103,616,030</u>
FUND BALANCES			
Annuity Savings Fund	\$30,605,790	\$28,472,647	\$27,345,326
Annuity Reserve Fund	11,398,591	11,343,054	10,533,574
Military Service Fund	1,057	1,010	1,010
Pension Fund	23,123,454	28,459,538	28,243,818
Pension Reserve Fund	70,269,812	55,515,629	37,492,301
TOTAL	<u>\$135,398,703</u>	<u>\$123,791,878</u>	<u>\$103,616,030</u>

Holyoke Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 1999**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Pension Reserve Fund	Expense Fund	Total All Funds
Beginning Balance (1997)	\$25,492,403	\$10,216,309	\$985	\$27,980,525	\$24,382,684	\$104,933	\$88,177,840
Receipts	3,648,228	304,042	25	9,659,128	13,114,875	508,826	27,235,124
Interfund Transfers	(1,224,067)	1,228,831		(4,764)			(0)
Disbursements	(571,238)	(1,215,607)	<u>0</u>	(9,396,329)	<u>0</u>	(613,759)	(11,796,934)
Ending Balance (1997)	27,345,326	10,533,574	1,010	28,238,560	37,497,559	0	103,616,030
Receipts	3,894,322	321,804	0	10,012,413	18,023,328	642,061	32,893,928
Interfund Transfers	(1,726,322)	1,728,401		(2,079)			0
Disbursements	(1,040,679)	(1,240,726)	<u>0</u>	(9,794,615)	<u>0</u>	(642,061)	(12,718,080)
Ending Balance (1998)	28,472,647	11,343,054	1,010	28,454,280	55,520,887	0	123,791,878
Receipts	3,999,575	337,479	47	5,746,160	14,739,638	860,427	25,683,325
Interfund Transfers	(1,106,148)	1,091,604			14,544		(0)
Disbursements	(760,283)	(1,373,547)	<u>0</u>	(11,082,244)	<u>0</u>	(860,427)	(14,076,500)
Ending Balance (1999)	<u>\$30,605,790</u>	<u>\$11,398,591</u>	<u>\$1,057</u>	<u>\$23,118,195</u>	<u>\$70,275,070</u>	<u>\$0</u>	<u>\$135,398,703</u>

Holyoke Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 1999**

	FOR THE PERIOD ENDING DECEMBER 31,		
	1999	1998	1997
Annuity Savings Fund:			
Members Deductions	\$3,223,585	\$3,197,247	\$2,926,773
Transfers from other Systems	133,661	38,351	55,119
Member Make Up Payments and Redeposits	39,345	38,922	52,103
Investment Income Credited to Member Accounts	<u>602,983</u>	<u>619,803</u>	<u>614,234</u>
Sub Total	<u>3,999,575</u>	<u>3,894,322</u>	<u>3,648,228</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>337,479</u>	<u>321,804</u>	<u>304,042</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	36,261	30,669	29,266
Received from Commonwealth for COLA and Survivor Benefits	783,682	1,001,980	1,322,882
Pension Fund Appropriation	<u>4,926,216</u>	<u>8,979,765</u>	<u>8,306,979</u>
Sub Total	<u>5,746,160</u>	<u>10,012,413</u>	<u>9,659,128</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	47	0	25
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>47</u>	<u>0</u>	<u>25</u>
Expense Fund:			
Expense Fund Appropriation	860,427	642,061	508,826
Investment Income Credited to Expense Fund	<u>0</u>		
Sub Total	<u>860,427</u>	<u>642,061</u>	<u>508,826</u>
Pension Reserve Fund:			
Incorrect Posting, Comm Dev	\$22,891	\$1,516	\$50,049
Federal Grant Reimbursement			
Pension Reserve Appropriation			
Interest Not Refunded	11,829	18,676	14,412
Excess Investment Income	<u>14,704,919</u>	<u>18,003,136</u>	<u>13,050,414</u>
Sub Total	<u>14,739,638</u>	<u>18,023,328</u>	<u>13,114,875</u>
TOTAL RECEIPTS	<u>\$25,683,325</u>	<u>\$32,893,928</u>	<u>\$27,235,124</u>

Holyoke Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 1999**

		FOR THE PERIOD ENDING DECEMBER 31,		
		1999	1998	1997
Annuity Savings Fund:				
Refunds to Members		\$718,393	\$908,023	\$547,158
Transfers to other Systems		<u>41,891</u>	<u>132,656</u>	<u>24,080</u>
	Sub Total	<u>760,283</u>	<u>1,040,679</u>	<u>571,238</u>
Annuity Reserve Fund:				
Annuities Paid		1,300,078	1,223,835	1,150,429
Option B Refunds		<u>73,468</u>	<u>16,891</u>	<u>65,178</u>
	Sub Total	<u>1,373,547</u>	<u>1,240,726</u>	<u>1,215,607</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments		7,785,225	7,234,515	6,960,211
Survivorship Payments		274,822	235,227	238,826
Ordinary Disability Payments		88,929	88,857	99,529
Accidental Disability Payments		1,312,278	1,307,355	1,210,830
Accidental Death Payments		621,368	584,515	543,323
Section 101 Benefits		103,977	105,509	103,133
3 (8) (c) Reimbursements to Other Systems		241,726	238,636	234,330
Principal Adjustment Account		<u>653,919</u>	<u>0</u>	<u>6,148</u>
	Sub Total	<u>11,082,244</u>	<u>9,794,615</u>	<u>9,396,329</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds				
Expense Fund:				
Board Member Stipend		12,000	12,000	10,250
Salaries		146,628	163,654	173,156
Legal Expenses		2,564	2,379	1,408
Medical Expenses				
Travel Expenses		11,497	9,294	6,525
Administrative Expenses		39,029	35,628	30,428
Furniture and Equipment				
Management Fees		561,637	340,174	333,168
Consultant Fees		38,638	37,353	22,654
Custodial Fees		<u>48,434</u>	<u>41,579</u>	<u>36,171</u>
	Sub Total	<u>860,427</u>	<u>642,061</u>	<u>613,759</u>
TOTAL DISBURSEMENTS		<u>\$14,076,500</u>	<u>\$12,718,080</u>	<u>\$11,796,934</u>

Holyoke Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 1999**

	FOR THE PERIOD ENDING DECEMBER 31,		
	1999	1998	1997
Investment Income Received From:			
Cash	\$116,326	\$248,102	\$254,944
Short Term Investments			
Fixed Income	3,229,454	3,115,338	2,538,383
Equities	352,138	379,825	522,890
Pooled or Mutual Funds	431,972	5,935,114	2,303,292
Commission Recapture	<u>12,271</u>	<u>8,654</u>	<u>12,106</u>
TOTAL INVESTMENT INCOME	<u>4,142,161</u>	<u>9,687,033</u>	<u>5,631,614</u>
Plus:			
Increase in Amortization of Fixed Income Securities	21,809	31,777	40,702
Realized Gains	6,329,459	3,729,323	7,116,277
Unrealized Gains	17,633,673	11,397,902	5,220,262
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>753,854</u>	<u>737,030</u>	<u>741,559</u>
Sub Total	<u>24,738,795</u>	<u>15,896,032</u>	<u>13,118,800</u>
Less:			
Decrease in Amortization of Fixed Income Securities	(3,751)	(59,664)	(72,865)
Realized Loss	(2,638,998)	(173,228)	(149,649)
Unrealized Loss	(8,717,410)	(2,241,810)	(2,916,477)
Paid Accrued Interest on Fixed Income Securities	(278,015)	(2,784,769)	(575,159)
Management Fees Paid			
Consultant Fees Paid			
Custodial Fees Paid			
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(737,030)</u>	<u>(741,559)</u>	<u>(558,723)</u>
Sub Total	<u>(12,375,205)</u>	<u>(6,001,029)</u>	<u>(4,272,873)</u>
NET INVESTMENT INCOME	<u>16,505,752</u>	<u>19,582,036</u>	<u>14,477,541</u>
Income Required:			
Annuity Savings Fund	602,983	619,803	614,234
Annuity Reserve Fund	337,376	317,036	304,042
Military Service Fund	47	0	25
Expense Fund	<u>860,427</u>	<u>642,061</u>	<u>508,826</u>
TOTAL INCOME REQUIRED	<u>1,800,833</u>	<u>1,578,900</u>	<u>1,427,127</u>
Net Investment Income	<u>16,505,752</u>	<u>19,582,036</u>	<u>14,477,541</u>
Less: Total Income Required	<u>1,800,833</u>	<u>1,578,900</u>	<u>1,427,127</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$14,704,919</u>	<u>\$18,003,136</u>	<u>\$13,050,414</u>

Holyoke Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,850,825	\$1,850,825	1.39%	100
Short Term	0	0	0.00%	100
Fixed Income	47,303,262	47,303,262	35.45%	40 - 80
Equities	31,985,029	31,985,029	23.97%	40
Pooled Short Term Funds	0	0	0.00%	
Pooled Domestic Equity Funds	37,254,599	37,254,599	27.92%	
Pooled International Equity Funds	4,199,915	4,199,915	3.15%	
Pooled Domestic Fixed Income Funds	7,362,335	7,362,335	5.52%	
Pooled Real Estate Funds	3,484,837	3,484,837	2.61%	
PRIT Core Fund	<u>0</u>	<u>0</u>	<u>0.00%</u>	100
GRAND TOTALS	<u>\$133,440,803</u>	<u>\$133,440,803</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **1999**, the rate of return for the investments of the **Holyoke** Retirement System was 10.81%. For the five year period ending December 31, **1999**, the rate of return for the investments of the **Holyoke** Retirement System averaged 17.09%. For the fourteen-year period ending December 31, **1999**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Holyoke** Retirement System was 13.07%.

Holyoke Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

The **Holyoke** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

December 6, 1985

20.03(1) Cash and short-term investments with a maturity of one year or less shall not exceed 50% of the total portfolio valued at market.

July 29, 1986

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase. **(Eliminated May 15, 2000).**

20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year. **(Eliminated May 15, 2000).**

April 28, 1987

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase. **(Eliminated May 15, 2000).**

March 30, 1989

20.04(6) Equities of foreign corporations, including American Depositary Receipts, listed on a United States stock exchange, provided that all such investments are denominated in U.S. currency, and that the total of all such investments shall not exceed 10% of the total book value of equity investments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to

below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent.

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

March 1, 1990

20.04(7) The portion of the portfolio that is invested in the Freedom Capital Environmental Fund and the Freedom Capital Global Fund may include investments in international equity and fixed income investments which are traded on foreign exchanges.

Holyoke Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

SUPPLEMENTARY INVESTMENT REGULATIONS – (Cont'd.)

June 14, 1995

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market. **(Eliminated May 15, 2000).**

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

840 CMR 21.00: Prohibited Investments

Future Contracts other than as follows:

(a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

August 15, 1996

20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market. **(Eliminated May 15, 2000).**

October 24, 1996

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 1% of the total market value of the portfolio may be invested in non-rated bonds or bonds with a minimum quality rating below Baa or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to

below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 1% of the total market value of the portfolio may be invested in non-rated bonds or bonds with a minimum quality rating below Baa or equivalent.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

Holyoke Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

- (a) The retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) Such personnel retain authority in the decision making process, and
- (c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

August 8, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its large cap equity mandate with Freedom Capital Management by transferring the value portion of the account from a separately managed fund to a commingled fund, the Freedom Large Cap Value Fund. There is no change in investment strategy or benchmark and the modification is expected to result in lower costs to the Holyoke Retirement Board.

January 11, 2002

16.08. In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its fixed income mandate with Freedom Capital Management. First, the account is changing from a separate account to a commingled fund. Second, the mandate is being modified from Core to Core Plus. The commingled funds is the Freedom Capital Core Plus Fixed Income fund.

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Holyoke** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually reduced such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited all income derived from interest and dividends of invested funds. At the end of the year the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Holyoke** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

March 11, 1986

- Unless otherwise specified employees must work twenty (20) hours per week to be eligible for membership.

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

- Employees of the Holyoke Geriatric Authority must work six (6) months before they are eligible for membership. Once they become members they may purchase this other service. **(Repealed January 3, 1992)**
- employees that have worked under the CETA program or Teacher Aides are not eligible for membership in the Holyoke Retirement System; however, if the employee gains employment in any other qualified position; they may buy back this other time.
- Section 90C and 90D adjustments shall be granted as of July 1 of each year in lieu of COLA's qualified retirees get whichever is greater.

October 7, 1986

"Teacher Aides who work a minimum of Twenty (20) hours per week and are under the age of 65, shall become members of the Holyoke Retirement System."

July 1, 1997

Any full-time employee, who is a member of the Holyoke Contributory Retirement System, is eligible to purchase previous seasonal, temporary or provisional service rendered for any governmental unit belonging to the Holyoke Retirement System.

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Holyoke City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Brian G. Smith

Appointed Member: Russell J. McNiff Term Expires: Indefinite

Elected Member: John T. McCarthy Term Expires: 03/31/04

Elected Member: Daniel R. Owens Term Expires: 06/30/05

Appointed Member: Sal J. Canata III Term Expires: 01/01/03

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$10,000,000 EXECUTIVE RISK
Ex officio Member:)	\$10,000,000 FEDERAL INSURANCE
Elected Member:)	\$10,000,000 TRAVELERS INDEMNITY
Appointed Member:)	
Staff Employee:)	

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System completed during the audit period was prepared by Buck Consultants as of January 1, 1999.

The actuarial liability for active members was	\$ 86,124,789
The actuarial liability for inactive members was	718,963
The actuarial liability for retired members was	93,372,169
The total actuarial liability was	180,215,921
System assets as of that date were	124,672,189
The unfunded actuarial liability was	\$ 55,543,732
The ratio of system's assets to total actuarial liability was	69.2%
As of that date the total covered employee payroll was	\$ 41,606,346

The normal cost for employees on that date was 7.50% of payroll
The normal cost for the employer was 6.40% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum
Rate of Salary Increase: 6.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 1999

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll (b-a)/c
1/1/1999	\$ 124,672,189	\$ 180,215,921	\$ 55,543,732	69.2%	\$41,606,346	133.5%
1/1/1998	\$ 103,682,801	\$ 161,786,384	\$ 58,103,583	64.1%	\$40,572,345	143.2%
1/1/1996	\$ 77,942,408	\$ 125,981,224	\$ 48,038,816	61.9%	\$33,425,533	143.7%

Holyoke Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Superannuation	41	56	33	18	32	31	32	33	39	25
Ordinary Disability	0	1	1	0	0	1	1	1	0	0
Accidental Disability	1	5	1	2	1	1	2	1	5	2
Total Retirements	42	62	35	20	33	33	35	35	44	27
 Total Retirees, Beneficiaries and Survivors	 1,002	 897	 877	 867	 844	 856	 852	 847	 866	 861
 Total Active Members	 2,225	 1,825	 1,685	 1,406	 1,405	 1,231	 1,287	 1,445	 1,403	 1,366
 Pension Payments										
Superannuation	\$4,657,588	\$5,146,387	\$5,669,856	\$5,737,631	\$5,915,262	\$6,219,460	\$6,471,377	\$6,960,211	\$7,234,515	\$7,785,225
Survivor/Beneficiary Payments	137,371	136,713	123,345	106,099	106,861	104,989	100,368	238,826	235,227	274,822
Ordinary Disability	1,133,350	1,189,002	1,246,679	1,274,116	1,287,879	1,308,069	1,253,754	99,529	88,857	88,929
Accidental Disability	253,028	246,064	255,386	246,756	249,377	200,706	236,326	1,210,830	1,307,355	1,312,278
Other	<u>411,774</u>	<u>481,848</u>	<u>521,012</u>	<u>615,943</u>	<u>631,931</u>	<u>752,495</u>	<u>813,880</u>	<u>646,455</u>	<u>690,025</u>	<u>725,346</u>
Total Payments for Year	<u>\$6,593,111</u>	<u>\$7,200,014</u>	<u>\$7,816,278</u>	<u>\$7,980,545</u>	<u>\$8,191,310</u>	<u>\$8,585,719</u>	<u>\$8,875,705</u>	<u>\$9,155,851</u>	<u>\$9,555,979</u>	<u>\$10,186,599</u>